ATRIUM MORTGAGE
INVESTMENT CORPORATION

CANADA'S PREMIER NON-BANK LENDER ™

MD&A

MANAGEMENT'S DISCUSSION AND ANALYSIS

FIRST QUARTER 2015
MARCH 31, 2015

Management's Discussion and Analysis

March 31, 2015

Our business

We are a mortgage lender that fills the lending gap caused by the limited number of financial institutions operating in Canada. We lend in major urban centres where the stability and liquidity of real estate are at the highest levels. We focus on loans that cannot be placed with financial institutions but which represent an acceptable underwriting risk. We invest in mortgages secured by all types of residential, multi-residential and commercial real property located in Canada, subject to compliance with our investment policies. Our strategy is to grow in a controlled manner by diversifying geographically, and focusing on those real estate sectors with the lowest risk profiles.

Our investment objectives are to preserve our shareholders' equity and to provide our shareholders with stable and secure dividends from our investments in mortgage loans within the criteria mandated for a Mortgage Investment Corporation (MIC). Working within conservative risk parameters, we endeavour to maximize income and dividends through the sourcing and efficient management of our mortgage investments. Information herein is current as of April 22, 2015.

Highlights

Atrium had a good quarter, despite a challenging economy. For the three months ended March 31, 2015, we had revenues of $9.5 million, up 24% from the prior year. Earnings were $5.6 million, or $0.23 per share, compared with $4.8 million, or $0.23 per share a year earlier.

Effective January 2015, we increased our regular monthly dividend to $0.07 per share, an annual rate of $0.84, an increase from an annual rate of $0.82 during the previous year. During the quarter we also paid out a special dividend of $0.07 to shareholders of record December 31, 2014.

As anticipated, our mortgages receivable declined by 10% from December 31, 2014 to $390 million at March 31, 2015. While we had $63 million of new fundings (excluding renewals) during the quarter, repayments aggregated $107 million. By way of comparison, during the same quarter in the previous year, we had $96 million of new fundings and only $34 million of repayments. Of the repayments during the first quarter, $34 million had been expected in the previous quarter, but had been delayed. The high level of repayments is an indicator as to the overall soundness of our mortgage portfolio.

Earned
23 cents per share
basic and diluted,
same as last year

Strong mortgage portfolio

78%
first mortgages

95%
less than 75%
loan-to-value

Mortgages receivable
$390 million

Nine mortgage originators in five offices across central and western Canada

Investment portfolio

Our mortgage portfolio consists of 195 mortgage loans and aggregated $393 million at March 31, 2015, a decrease of 10% from December 31, 2014. This reduction was as anticipated and resulted from repayments of mortgages exceeding new mortgages funded.

	March 31, 2015			December 31, 2014		
Mortgage category	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
(outstanding amounts in $000s)						
Commercial/mixed use	29	$ 112,388	28.6%	31	$ 134,990	31.1%
Low-rise residential	21	78,483	20.0%	23	85,678	19.7%
Construction	18	67,688	17.3%	17	61,095	14.1%
House and apartment	90	65,287	16.6%	90	93,070	21.4%
High-rise residential	8	43,154	11.0%	8	44,048	10.1%
Mid-rise residential	10	21,377	5.4%	8	12,127	2.8%
Condominium corporation	19	4,435	1.1%	13	3,260	0.8%
Mortgage portfolio	195	392,812	100.0%	190	434,268	100.0%
Accrued interest receivable		1,718			2,177	
Mortgage discount		(531)			(465)	
Mortgage origination fees		(1,097)			(835)	
Provision for mortgage losses		(2,750)			(2,388)	
Mortgages receivable		$ 390,152			$ 432,757	

A summary of our mortgages by size is presented below.

	March 31, 2015			December 31, 2014		
Mortgage amount	**Number**	**Outstanding amount**	**% of Portfolio**	**Number**	**Outstanding amount**	**% of Portfolio**
(outstanding amounts in $000s)						
$0 - $2,500,000	149	$ 122,025	31.0%	139	$ 119,655	27.6%
$2,500,001 - $5,000,000	26	95,078	24.2%	26	90,602	20.9%
$5,000,001 - $7,500,000	8	48,903	12.5%	9	54,931	12.6%
$7,500,001 +	12	126,806	32.3%	16	169,080	38.9%
	195	$ 392,812	100.0%	190	$ 434,268	100.0%

As of March 31, 2015, the average outstanding mortgage balance was $2.0 million (December 31, 2014 – $2.3 million), and the median outstanding mortgage balance was $1.0 million (December 31, 2014 – $1.1 million).

Analyses of our mortgages as at March 31, 2015 by type of mortgage, nature of the underlying property, and location of the underlying property is set out below and on the next page. The tables show the weighted average interest rate excluding lender fees paid by the borrower, which reflects the yield to Atrium including any mortgage discount or premium.

Description	**Number of mortgages**	**Amount**	**Percentage**	**Weighted average interest rate**
($000s)				
Type of Mortgage				
First mortgages	156	$ 306,435	78.0%	8.4%
Second and third mortgages	39	86,377	22.0%	10.2%
	195	**$ 392,812**	**100.0%**	**8.82%**
Nature of underlying property				
Residential	166	$ 280,424	71.4%	8.93%
Commercial	29	112,388	28.6%	8.57%
	195	**$ 392,812**	**100.0%**	**8.82%**

Location	Number of mortgages	Amount	Percentage	Weighted average interest rate
($000s)				
Greater Toronto Area	139	$ 270,987	69.0%	8.81%
Non-GTA Ontario	10	11,204	2.9%	9.01%
Saskatchewan	1	3,715	0.9%	8.50%
Alberta	35	76,744	19.5%	8.62%
British Columbia	10	30,162	7.7%	9.41%
	195	$ 392,812	100.0%	8.82%

We have an exceptionally high percentage of our portfolio invested in first mortgages (78.0%), which is a core strategy and is unmatched by our peer group.

The weighted average loan-to-value ratio in our mortgage portfolio is 65.1%, with 95.3% of the portfolio below 75% loan-to-value.

Mortgage category	March 31 2015	%	December 31 2014	%	% change
($000s)					
Conventional first mortgages	$ 295,693	75.3%	$ 353,300	81.4%	(16.3)%
Conventional second and third mortgages	74,342	18.9%	65,478	15.1%	(13.5)%
Non-conventional mortgages	18,342	4.7%	12,230	2.8%	50.0%
Other	4,435	1.1%	3,260	0.7%	36.0%
	$ 392,812	100.0%	$ 434,268	100.0%	(9.5)%

Conventional mortgages are those mortgages with a loan-to-value of less than or equal to 75%. Seventy-five percent (75%) loan-to-value is the industry norm for determining a conventional versus non-conventional mortgage. Non-conventional mortgages are those mortgages with a loan-to-value in excess of 75%.

The weighted average term remaining for our mortgages receivable at March 31, 2015 is 14.6 months (December 31, 2014 – 13.7 months).

Our business

We are a mortgage lender that fills the lending gap caused by the limited number of financial institutions operating in Canada. We lend in major urban centres where the stability and liquidity of real estate are at the highest levels. We focus on loans that cannot be placed with financial institutions but which represent an acceptable underwriting risk. The weighted average loan-to-value ratio of our mortgage portfolio, as a whole, at the time of underwriting each loan in our portfolio, will not exceed 75%. A typical loan in our portfolio has an interest rate of 8% to 10% per annum, a one or two-year term and monthly interest-only mortgage payments.

Our lending parameters are as follows:

- First or second mortgages on income-producing real estate up to a maximum of 85% of appraised value.
- Mortgages on residential and commercial properties up to a maximum of 75% of appraised value.
- Loans on single family residences up to 75% of appraised value.
- Construction loans up to a maximum of 90% of cost.
- Loans to condominium corporations.

Mortgage loan amounts are generally $300,000 to a maximum of $20 million. The largest single mortgage in our mortgage portfolio as at March 31, 2015 was $12.5 million (December 31, 2014 – $13.7 million). For loan amounts in excess of $20 million, we generally co-lend with a financial institution or private lender. The parameters listed above are our maximum mortgage lending parameters. At March 31, 2015, the weighted average loan-to-value ratio of the mortgage portfolio remained conservative at 65.1%, compared to 64.3% at December 31, 2014.

Our investment policies, which may be changed by our board of directors, are as follows:

- We may invest only in residential mortgages, commercial mortgages, commercial mortgage backed securities and certain related investments.
- All investments must be mortgages on the security of real property situated within Canada, loans to condominium corporations, or certain permitted interim investments.
- Commercial mortgages may not constitute more than 50% of our total assets at any time.
- The term of the mortgage may be no greater than ten years.
- No single borrower may account for more than 15% of our total assets. In addition, any loan or amendment that would result in an exposure to one borrower exceeding the lesser of $50 million or 10% of the portfolio requires approval of the board.

- All mortgages are supported by external appraisals by a qualified appraiser. All mortgages, except mortgages secured by one to six residential units, are supported by environmental audits.
- The maximum initial loan-to-value ratio of an individual mortgage is 85% including any prior ranking encumbrances, and the weighted average loan-to-value ratio of our mortgage portfolio at the time of underwriting each loan may not exceed 75%.
- Our ratio of debt to equity must be less than 1:1.
- We do not invest directly in real property, although real property may be acquired through foreclosing on a mortgage.
- A mortgage investment: (i) of $2,000,000 or more requires approval of the board; (ii) of between $1,000,000 and $2,000,000 requires approval of three members of the board, including at least two independent directors; and (iii) of $1,000,000 or less requires approval of any one member of the board. For loans previously approved, if the mortgage amount exceeds the amount approved by up to $200,000 and if the loan-to-value ratio increases by less than 5% where the ratio is 75% or less, requires the approval of one member of the board, otherwise the general limits apply. We may invest in interim investments that are guaranteed by the Government of Canada or of a province or territory of Canada or deposits or certificates of deposits, acceptances and other similar instruments issued, endorsed or guaranteed by a Schedule I Bank in any amount without prior board approval.
- We may not make unsecured loans to, nor invest in securities issued by, our manager or its affiliates, nor make loans to the directors or officers of the manager.
- We may not make any investment, or incur any indebtedness, that would result in our not qualifying as a MIC.

Our investment objectives are to preserve our shareholders' equity and to provide our shareholders with stable and secure dividends from our investments in mortgage loans within the criteria mandated for a MIC. Working within conservative risk parameters, we endeavour to maximize income and dividends through the sourcing and efficient management of our mortgage investments.

We are a non-bank lender and invest in mortgages secured by all types of residential, multi-residential and commercial real property located in Canada, subject to compliance with our investment policies. The types of properties that we finance include residential houses, small multi-family residential properties comprised of six or fewer units, residential apartment buildings, mixed-use residential apartments and store-front properties, commercial properties, residential and commercial land development sites and construction projects. We also invest in short-term bridge financing for real estate developers. Our strategy is to grow in a controlled manner by diversifying geographically, and focusing on real estate sectors with the lowest risk profiles.

We qualify as a MIC and are restricted from any activity that would result in us failing to qualify as a MIC. In order to qualify as a MIC, we must satisfy the requirements in subsection 130.1(6) of the ITA throughout the taxation year. Among the requirements are:

- We can only invest or manage funds and cannot manage or develop real property.
- We cannot own debts secured on real property situated outside Canada, debts owing by non-residents unless such debts were secured on real property situated in Canada, shares of the capital stock of corporations not resident in Canada, or real property situated outside of Canada or any leasehold interest in such property.
- No shareholder (together with related persons, as defined in the ITA) may at any time own, directly or indirectly, more than 25% of our common shares.
- The cost for tax purposes of cash on hand, debts secured on specified residential properties, and funds on deposit with a Canada Deposit Insurance Fund or Régie de l'assurance-dépôts du Québec-insured institution or credit union must constitute at least 50% of the cost of all of our property.
- The cost for tax purposes of any interests in real property (including leaseholds but excepting real or immovable property acquired by foreclosure after default by the mortgagor) may not exceed 25% of the cost of all of our property.
- There are certain restrictions as to our maximum debt-to-equity ratio.

We are managed by Canadian Mortgage Capital Corporation (the "manager" or "CMCC"), which is our exclusive manager and arranges and services our mortgage loans and otherwise directs our affairs and manages our business.

For explanations as to some of the terms used herein, please refer to our Annual Information Form for the year ended December 31, 2014, which is available at www.sedar.com.

Results of Operations

(In this section, dollars are in thousands of Canadian dollars, except per share amounts)

Financial summary

	Three months ended March 31 2015	2014
Revenue	$ 9,492	$ 7,645
Mortgage servicing and management fees	984	717
Other expenses	271	260
Provision for mortgage losses	362	464
Income before financing costs	7,875	6,204
Financing costs	2,273	1,368
Earnings and total comprehensive income	$ 5,602	$ 4,836
Basic earnings per share	$ 0.23	$ 0.23
Diluted earnings per share	$ 0.23	$ 0.23
Dividends declared	$ 5,138	$ 4,352
Mortgages receivable, end of period	$ 390,152	$ 344,301
Total assets, end of period	$ 390,491	$ 344,601
Shareholder' equity, end of period	$ 249,548	$ 213,245

Summary of quarterly results *(unaudited)*

	Q1 - 2015	*Q4 2014*	*Q3 2014*	*Q2 2014*	*Q1 2014*	*Q4 2013*	*Q3 2013*	*Q2 2013*
Revenue	$ 9,492	$ 9,919	$ 9,096	$ 8,296	$ 7,645	$ 6,545	$ 6,281	$ 5,845
Mortgage servicing and management fees	984	1,094	916	826	717	678	662	610
Other expenses	271	334	213	207	260	234	188	171
Provision for mortgage losses	362	737	504	112	464	–	–	63
Income before financing costs	7,875	7,754	7,463	7,151	6,204	5,633	5,431	5,001
Financing costs	2,273	2,364	1,920	1,883	1,368	989	837	429
Earnings and comprehensive income	$ 5,602	$ 5,390	$ 5,543	$ 5,268	$ 4,836	$ 4,644	$ 4,594	$ 4,572
Basic earnings per share	$ 0.23	$ 0.22	$ 0.23	$ 0.23	$ 0.23	$ 0.22	$ 0.22	$ 0.22
Diluted earnings per share	$ 0.23	$ 0.22	$ 0.23	$ 0.23	$ 0.23	$ 0.22	$ 0.22	$ 0.22
Dividends declared	$ 5,138	$ 6,714	$ 4,994	$ 4,777	$ 4,352	$ 5,298	$ 4,230	$ 4,224

Results of operations – three months ended March 31, 2015

For the three months ended March 31, 2015, mortgage interest and fees revenue aggregated $9,492, compared to $7,645 in the comparative period, an increase of 24%. The weighted average interest rate on our mortgage portfolio increased to 8.82% at March 31, 2015, slightly higher than the 8.81% at the previous year end, December 31, 2014.

Operating expenses, excluding the provision for mortgage losses, for the three months ended March 31, 2015 were $1,255, compared to $977 in the comparative period, an increase of 28%, due to the increase in the size of the mortgage portfolio. The general provision for mortgage losses was $362 in the quarter to bring the total general provision to $2,750, or 70 basis points (0.70%) of the mortgage portfolio. Mortgage servicing and other fees paid to the manager (that is, the management fee plus HST) aggregated $984 for the three months ended March 31, 2015, compared with $717 in the prior year period, reflecting the growth of our mortgage portfolio. There was no specific provision for mortgage losses during the quarter or at March 31, 2015.

Financing costs for the three months ended March 31, 2015 were $2,273, compared to $1,368 in the same period of 2014, an increase of 66%. This increase is due to the increased use of our bank line of credit compared to the comparable period, and two convertible debentures issued during 2014, as we adjusted our balance sheet leverage, which was 35% at March 31, 2015 (December 31, 2014 – 41%). (We define debt as the aggregate of the total borrowings under the bank credit facility and the unsecured convertible debentures.)

Net earnings for the three months ended March 31, 2015 were $5,602, an increase of 16% from net earnings of $4,836 for the same period in the prior year. Basic and fully diluted earnings per common share were $0.23, for the three months ended March 31, 2015, compared with $0.23 per common share for the comparable period in the previous year.

During the three months ended March 31, 2015, we funded gross mortgages aggregating $63,037. Of these advances, $50,631 were first mortgages, representing 77% of the total loans funded. $3,800 of these advances were on properties in British Columbia, $10,395 were on properties in Alberta, $2,615 were non-GTA Ontario, $743 was on a property in Saskatchewan and the remaining $45,484 were made in the Greater Toronto Area. There were $106,810 of gross repayments during the period. The total portfolio decreased from $434,268 to $392,812 during the period.

Liquidity and capital resources

At March 31, 2015, we had bank indebtedness and operating line outstanding of $38,586. The operating line is provided by a syndicate of two major chartered banks, drawn through a combination of bankers' acceptances and bank loans to minimize our borrowing costs. We are in compliance with the covenants required in our operating credit facility as at March 31, 2015, and we expect to remain in compliance with such covenants going forward. We have three convertible debentures outstanding, with a total book value of $99,470 at March 31, 2015.

Growth in our mortgage portfolio has historically been financed by the issuance of common shares and by the issuance of convertible debt. In this quarter, the decline in our mortgage portfolio was offset by repayment of our bank operating line. We expect to be able to generate sufficient funds for future net mortgage loan investments through a combination of common share issuances, convertible or other debt, and the operating credit facility.

Investing activities during the three months ended March 31, 2015 consisted of advances on new mortgage loan investments of $63,037, less repayments received of $106,810, for net cash from new mortgage loan investments of $43,773.

Cash used by financing activities during the three months ended March 31, 2015 consisted primarily of net repayments of our bank line as a result of net repayments of mortgages receivable. Repayments less draws under our operating facility represented a $41,712 use of cash.

Changes in financial position

Bank indebtedness, bankers' acceptances and bank loans payable (all under our operating credit facility) decreased to $38,586 at March 31, 2015, from $80,298 at December 31, 2014, as a result of the reduction in our mortgages receivable, which declined, as anticipated by 10% from December 31, 2014 to $390 million at March 31, 2015. While we had $63 million of new fundings (excluding renewals) during the quarter, repayments aggregated $107 million. By way of comparison, during the same quarter in the previous year, we had $96 million of new fundings and only $34 million of repayments. The change is a reflection of the current lending environment, and of our adherence to strict underwriting standards so that we do not make loans unless we are completely satisfied as to their quality. As at March 31, 2015, total debt (including bank debt, operating line and convertible debentures) was conservative at 35% of total assets.

Accounts payable and accrued charges were $445 at March 31, 2015 compared to $523 at December 31, 2014. Dividends payable were $1,715 at March 31, 2015 down from $3,379 at December 31, 2014. The decrease was due to the special dividend being accrued at December 31, 2014 and subsequently paid out during the quarter.

Share capital increased slightly to $246,587 at March 31, 2015 from $245,794 at December 31, 2014 due to our dividend reinvestment plan (which accounted for $760 of the increase) and the employee share purchase plan.

Contractual obligations

Contractual obligations due at March 31, 2015 were as follows:

Obligations at March 31, 2015	***Total***	***Less than 1 year***	***1-2 years***	***3-7 years***
Bank indebtedness	$ 731	$ 731	$ –	$ –
Operating line	37,855	37,855		
Accounts payable and accrued liabilities	445	445	–	–
Accrued convertible debentures interest	427	427		
Dividends payable	1,715	1,715	–	–
Due to related party	300	300	–	–
Convertible debentures	99,470	–	–	99,470
Total	$ 140,943	$ 41,473	$ –	$ 99,470

We have commitments to advance additional funds under existing mortgages of $109,563 and for new mortgages of $22,032 at March 31, 2015 (December 31, 2014 – $99,757 and $10,063 respectively). Generally, outstanding commitments are expected to be funded within the next 24 months. However, our experience has been that a portion of the unfunded amounts on existing mortgages will never be drawn.

Off-balance sheet arrangements

As at March 31, 2015, we had $4,300 (December 31, 2014 – $4,483) of letters of credit (LCs) outstanding which were issued under our operating credit facility. LCs outstanding reduce the maximum available under our operating credit facility. The maximum available by way of LCs under our operating credit facility is $10,000. LCs represent irrevocable assurances that our banks will make payments in the event that a customer cannot meet its obligations to third parties. LCs carry the same credit risk, recourse and collateral security requirements as mortgages extended to customers.

Transactions with related parties

Transactions with related parties are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties, and are measured at fair value. The manager is responsible for our day-to-day activities. We incurred management and mortgage servicing fees from a subsidiary of the manager of $984 for the three months ended March 31, 2015 (three months ended March 31, 2014 – $713). Mr. Robert G. Goodall is a director and part of the key management personnel of the manager, received compensation from the manager, and is also a director of Atrium. The management agreement between us and the manager contains provisions for the payment of termination fees to the manager in the event that the management agreement is terminated in certain circumstances. The manager also acts as broker for our mortgages. The manager receives origination fees from the borrowers of up to 1% of the amount being funded; origination fees in excess of 1% are split equally between the manager and Atrium.

Critical accounting estimates and policies

Our condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and follow International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) issued by the International Accounting Standards Board (IASB). These condensed interim financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2014. Accounting policies have been consistently applied in the preparation of these condensed interim financial statements.

The preparation of condensed interim financial statements in accordance with IFRS requires us to make estimates, assumptions and judgements. The most subjective of these are the valuation of mortgages receivable, and the provision for mortgage losses, as well as the measurement of the liability and equity components of our convertible debentures. We believe that our estimates are appropriate; however, actual results could differ from the amounts estimated. Estimates and underlying assumptions are reviewed each quarter. The more significant accounting policies are set out on the next page.

Revenue recognition
Mortgage interest and fees revenues are recognized in the statements of earnings and comprehensive income using the effective interest method. Mortgage interest and fees revenues include our share of any fees received, as well as the effect of any discount or premium on the mortgage.

The effective interest method derives the interest rate that discounts the estimated future cash payments and receipts during the expected life of the mortgage receivable (or, where appropriate, a shorter period) to its carrying amount. When calculating the effective interest rate, future cash flows are estimated considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all fees and transaction costs paid or received. Fees and transaction costs include incremental revenues and costs that are directly attributable to the acquisition or issuance of the mortgage.

Mortgages receivable
A mortgage receivable, carried at amortized cost, is considered impaired when there is objective evidence that there has been a deterioration of credit quality subsequent to its initial recognition to the extent that we no longer have reasonable assurance as to the timely collection of the full amount of principal and interest.

We assess mortgages receivable for objective evidence of impairment both individually and collectively each reporting period. The specific and general provisions for mortgage losses are determined by taking into account the following factors:

- Delays in the collection of interest and principal
- The point at which we consider a loan to be in default (which we define as 90 days for single family residential mortgages and 30 days for all other mortgages)
- Other known factors specific to the property, the borrower or the guarantor
- Economic and other real estate market conditions in the geographic area in which a borrower's project is located

- Our judgement as to whether current economic and credit conditions are such that the actual inchoate or potential losses at the reporting date are likely to be higher or lower than the amounts suggested by historic experience
- Any other factors that apply to a particular mortgage or group of mortgages

Several of these factors involve estimates and judgements on the part of management in determining the provisions for mortgage losses. The other key estimates used for quantifying the specific and general provisions for mortgage losses are:

- The period of time expected to elapse between the contractual maturity or interest and principal repayment dates and the date at which recovery is estimated
- The amount expected to be ultimately recovered on impaired loans, taking into account the probability of different outcomes, where necessary
- The value of underlying security, and whether Atrium expects to take possession of the property
- The amount of any legal and other third party costs estimated to be incurred

An impairment loss is calculated as the difference between the carrying amount of the mortgage receivable and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are charged to the statements of earnings and comprehensive income and are reflected in the provision for mortgage losses.

If there is no objective evidence of impairment for an individual mortgage receivable, it is included in a group of mortgages with similar credit risk characteristics and collectively assessed for impairment for losses incurred but not identified, and reported as a general provision. For the purpose of determining the group of mortgages with similar credit risk characteristic, mortgages are grouped by category: commercial/mixed use, house and apartment, low-rise residential, construction, high-rise residential, mid-rise residential, and condominium corporations.

Convertible debentures

The convertible debentures can be converted into our common shares at the option of the investor. They are compound financial instruments with two components: a financial liability, and a call option which is an equity instrument. The fair value of the liability component is measured as of the date that the debentures were issued, and the equity instrument is valued on that date based upon the difference between the fair value of the debenture and the fair value of the liability component.

The measurement of the fair value of the liability component is based upon market rates of interest on similar debt instruments without the conversion feature. Expenses of issue are allocated between the two components on a *pro-rata* basis. The book value of the debt is accreted up to its face value over the life of the debentures using the effective interest method, which provides for the application of a constant interest rate over the life of the debenture. The value of the equity component is not re-measured subsequent to its initial measurement date.

Income taxes

We are, and intend to maintain our status as, a MIC, and as such are not taxed on income provided that it flows through to our shareholders as dividends during the year or within 90 days after December 31 each year. It is our policy to pay such dividends out to the shareholders to remain non-taxable. Accordingly, no provision for current or future income taxes is required.

Controls and procedures

Our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument (NI) 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*.

We designed the DC&P and ICFR, the latter of which was using the framework in *Internal Control – Integrated Framework* (as revised in 2013) to provide reasonable assurance that material information relating to us is made known to our CEO and CFO during the reporting period; and information required to be disclosed by us in our filings under securities legislation is recorded, processed, summarized and reported within the required time periods; and provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles (GAAP).

Our CEO and CFO evaluated the design effectiveness of the DC&P and ICFR, as defined by NI 52-109, as of March 31, 2015. Based on this evaluation, they concluded that the designs of the DC&P and ICFR were effective as of March 31, 2015. NI 52-109 also requires Canadian public companies to disclose in their MD&A any change in ICFR during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, ICFR. No such change to ICFR has occurred during the most recently completed quarter.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Because of the inherent limitations in any control system, no evaluation of control can provide absolute assurance that all control weaknesses including, for example, any instances of fraud, have been detected. The inherent limitations include, among other items: (i) that management's assumptions and judgements could ultimately prove to be incorrect as conditions and circumstances vary; (ii) the impact of any undetected errors; and (iii) controls may be circumvented through the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of control is also based in part upon certain assumptions as to the likelihood of future events, and there is no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Outstanding share data

Our authorized capital consists of an unlimited number of common shares, of which 24,494,883 were issued and outstanding at March 31, 2015, and 24,511,565 were issued and outstanding as at the date hereof. In addition, as at the date hereof, 2,407,408, 2,391,054 and 2,747,440 common shares are issuable upon conversion or redemption or in respect of repayment at maturity of the outstanding 5.25%, 6.25%, and the 5.50% convertible debentures, using the conversion price of $13.50, $13.30 and $14.65, respectively, for each common share.

We also have an employee share purchase plan, a deferred share incentive plan and a dividend reinvestment plan pursuant to which common shares may be issued from time to time. These plans are each described elsewhere in this MD&A.

Risks and uncertainties

We are subject to many risks and uncertainties that may limit our ability to execute our strategies and achieve our objectives. We have processes and procedures in place in an attempt to control or mitigate certain risks, while others cannot be or are not mitigated. Material risks that cannot be mitigated include a significant decline in the general real estate market, interest rates changing markedly, being unable to make mortgage loans at rates consistent with rates historically achieved, not having adequate mortgage loan opportunities presented to us, and not having adequate sources of bank finance available.

Please also refer to "Forward-looking information," below, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2014 which is incorporated herein by reference and is available at www.sedar.com and at www.atriummic.com.

Forward-looking information

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities legislation, including statements with respect to management's beliefs, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans" or "continue" or similar expressions suggesting future outcomes or events. Forward-looking statements regarding earnings and mortgage portfolio growth are based upon the following assumptions: that other factors such as revenues and expenses continue to follow current trends, and that current trends in our mortgage portfolio growth continue.

All forward-looking statements reflect management's current beliefs and are based on information currently available to management. These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A. Those risks and uncertainties include risks associated with mortgage lending, competition for mortgage lending, real estate values, interest rate fluctuations, environmental matters and the general economic environment. For other risks and uncertainties, please refer to "Risks and uncertainties" above, and the "Risk Factors" section of our Annual Information Form for the year ended December 31, 2014 which is available at www.sedar.com and at www.atriummic.com. We caution that the foregoing list is not exhaustive, as other factors could adversely affect our results, performance or achievements. The reader is cautioned against undue reliance on any forward-looking statements.

Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Dividend Reinvestment Plan

A Dividend Reinvestment Plan (DRIP) is available to holders of our common shares. The DRIP allows participants to have their monthly cash dividends reinvested in additional common shares, at a discount of 2% from the market price. Shareholders who wish to enroll or who would like further information about the DRIP should contact their broker or our agent for the DRIP, Computershare Trust Company of Canada, at 1 (800) 564-6253 or www.computershare.com.

Environmental matters

Under various federal, provincial and municipal laws, an owner or operator of real property could become liable for the cost of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. We do not own any real property and thus would not attract environmental liability to which an owner would be exposed. In rare circumstances where a mortgage is in default, we may take possession of real property and may become liable for environmental issues as a mortgagee in possession. As part of the due diligence performed in respect of our mortgage loan investments, we obtain a Phase I environmental audit on the underlying real property provided as security for a mortgage, unless the manager has determined that a Phase I environmental audit is not necessary.

Responsibility of management and the board of directors

Management is responsible for the information disclosed in this MD&A, and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable. In addition, our audit committee and board of directors provide an oversight role with respect to our public financial disclosures, and have reviewed and approved this MD&A and the annual financial statements.

Additional information

Additional information about Atrium, including our Annual Information Form for the year ended December 31, 2014, is available on SEDAR at www.sedar.com. You may also obtain further information about us from our website at www.atriummic.com, by telephone at (416) 607-4200, or by email at ir@atriummic.com.

BOARD OF DIRECTORS

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Chair of the Board
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President
Optus Capital Corporation

Robert G. Goodall
CEO and President
Atrium Mortgage Investment Corporation

Peter P. Cohos
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Copez Properties Ltd.

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Metrus Properties Inc.

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Director
Loblaw Companies Ltd.

David M. Prussky
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Jeffrey D. Sherman, FCPA, FCA
CFO and Secretary

Michael Lovett
Managing Director – Ontario

Bram Rothman
Managing Director – Ontario

Phil Fiuza
Managing Director – Ontario, Residential

Daniel Stewart
Managing Director – Alberta and Saskatchewan

Marianne Dobslaw
Managing Director – British Columbia

TRANSFER AGENT

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Toronto, ON M5J 2Y1
T. (800) 564-6253

AUDITORS

Crowe Soberman LLP
1100 – 2 St. Clair Ave. E.
Toronto, ON M4T 2T5
T. (416) 964-7633

SHARE LISTING

Common shares,
TSX: AI

Convertible debentures 5.25%,
TSX: AI.DB

Convertible debentures 6.25%,
TSX: AI.DB.A

Convertible debentures 5.5%,
TSX: AI.DB.B

Atrium offers a dividend reinvestment plan (DRIP) so that shareholders may automatically reinvest their dividends in new shares of Atrium at a 2% discount from market price and with no commissions. This provides an easy way to realize the benefits of compound growth of their investment in Atrium. Shareholders can enroll in the DRIP program by contacting their investment advisor or Computershare.

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